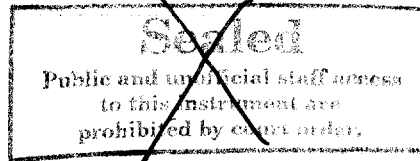


**UNSEALED
PER ORDER**



UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

United States District Court
Southern District of Texas
FILED

JUN 19 2014

David J. Bradley, Clerk of Court

UNITED STATES OF AMERICA,
Plaintiff,

v.

KENNETH ROBERT BRUCE,
Defendant.

§ Criminal No.
§
§
§
§
§
§

14-249

Indictment

The Grand Jury charges:

Counts One Through Twenty-Six
(18 U.S.C. 287, 2 - False Claims
Against the United States)

That on or about the following approximate dates, in the Houston Division of
the Southern District of Texas and elsewhere,

Kenneth Robert Bruce,

defendant herein, aiding and abetting others both known and unknown to the grand
jury, and being aided and abetted by others both known and unknown to the grand
jury, made and presented to the United States Treasury Department the following
claims against the United States for payments of income tax refunds in the
following approximate material amounts, which defendant then and there knew to

be false, fictitious, and fraudulent, by preparing and causing to be prepared, the following U.S. Individual Income Tax Returns (IRS forms 1040 or 1040A), Amended U.S. Individual Income Tax Returns (IRS forms 1040X), and a U.S. Income Tax Return for Estates and Trusts (IRS form 1041) containing materially false, fictitious, and fraudulent IRS forms 1099-OID (Original Issue Discount), and other material false items, which were presented to the United States Treasury Department through the Internal Revenue Service:

Count	False Claim (False Income Tax Return)	Taxpayer	Date Filed	Amount of False Claim (Claimed Tax Refund)
1	2008 IRS form 1040	Bruce	8/25/09	\$2,123,356.00
2	2006 IRS form 1040X	Bagwell	8/25/09	\$ 65,224.00
3	2007 IRS form 1040X	Bagwell	8/25/09	\$ 115,548.00
4	2008 IRS form 1040	Bagwell	8/25/09	\$ 184,935.00
5	2009 IRS form 1041	Bagwell Trust	2/18/10	\$ 351,856.00
6	2006 IRS form 1040X	Bahr	8/26/09	\$ 219,446.00
7	2007 IRS form 1040X	Bahr	8/26/09	\$ 184,003.00
8	2008 IRS form 1040	Bahr	8/26/09	\$ 182,063.00
9	2006 IRS form 1040X	Hartmann	8/26/09	\$ 137,160.00
10	2007 IRS form 1040X	Hartmann	8/26/09	\$ 218,650.00

11	2008 IRS form 1040	Hartmann	8/26/09	\$ 204,314.00
12	2006 IRS form 1040X	Martin	8/26/09	\$ 167,337.00
13	2007 IRS form 1040X	Martin	8/26/09	\$ 276,951.00
14	2008 IRS form 1040	Martin	8/26/09	\$ 149,929.00
15	2006 IRS form 1040X	Seastrand	9/15/09	\$ 270,017.00
16	2007 IRS form 1040X	Seastrand	9/15/09	\$ 142,743.00
17	2008 IRS form 1040	Seastrand	9/15/09	\$ 116,923.00
18	2006 IRS form 1040X	Tran	9/04/09	\$ 101,270.00
19	2007 IRS form 1040X	Tran	9/04/09	\$ 31,797.00
20	2008 IRS form 1040A	Tran	9/04/09	\$ 48,228.00
21	2006 IRS form 1040X	Scarborough	7/02/09	\$1,291,838.00
22	2007 IRS form 1040X	Scarborough	7/02/09	\$ 982,752.00
23	2008 IRS form 1040	Scarborough	7/02/09	\$1,285,189.00
24	2006 IRS form 1040X	Slaid	7/02/09	\$ 237,580.00
25	2007 IRS form 1040X	Slaid	7/02/09	\$ 100,609.00
26	2008 IRS form 1040	Slaid	7/02/09	\$ 286,967.00

In violation of Title 18, United States Code, Sections 287 and 2.

Count Twenty-Seven
(26 U.S.C. 7212(a) and 18 U.S.C. 2 – Interference
with the Administration of Internal Revenue Laws)

1. From on or about November 24, 2008, through on or about June 29, 2012, in the Houston Division of the Southern District of Texas and elsewhere,

Kenneth Robert Bruce,

defendant herein, aiding and abetting others both known and unknown to the grand jury, and being aided and abetted by others both known and unknown to the grand jury, did corruptly endeavor to obstruct and impede the due administration of the Internal Revenue Code by the following acts, among others:

(a) Defendant prepared and filed numerous fraudulent U.S. Individual Income Tax Returns (IRS forms 1040 or 1040A), Amended U.S. Individual Income Tax Returns (IRS forms 1040X), and U.S. Income Tax Returns for Estates and Trusts (IRS forms 1041) claiming false income tax refunds, in some cases of over \$1 million, in a false IRS form 1099-OID (Original Issue Discount) scheme.

(b) Defendant attached to the various fraudulent income tax returns false IRS forms 1099-OID claiming that certain entities had paid large amounts of income to the taxpayer in the form of Original Issue Discount and claiming that the entities had withheld all or a large portion of such alleged income as federal tax withholdings. In truth, the taxpayers had no income from Original Issue Discount,

and the entities named on the false forms 1099-OID did not make any of the alleged payments or withholdings.

(c) Defendant further, on November 24, 2008, made an application to the IRS for, and was granted, an account for Filing Information Returns Electronically (FIRE Account), which allowed defendant to electronically file information returns, such as forms 1099-OID, on behalf of entities. Defendant thereafter filed through his FIRE Account many false forms 1099-OID, purportedly from the entities named on the forms, reporting income in the nature of Original Issue Discount paid to taxpayers and reporting withholdings of some or of all of the income. The false forms 1099-OID that defendant filed with the IRS through his FIRE Account matched many of the false forms 1099-OID that defendant attached to the various fraudulent income tax returns that defendant prepared.

(d) To prepare a fraudulent income tax return for a taxpayer, defendant would ask the taxpayer to supply him with the following: the name of the bank where the taxpayer had a checking account and the taxpayer's total disbursements from the checking account during the taxable year made by check, debit, or credit; the names of the entities where the taxpayer had credit cards and the taxpayer's total charges on those credit cards during the taxable year; the names of the mortgage companies and other lenders from whom the taxpayer made loans during the

taxable year and the principal amounts of all such mortgages and other loans; and the names of the cell phone company, electric utility company, etc., with whom the taxpayer executed contracts during the taxable year and the principal amounts owed on such contracts. Defendant would then use this information to create false forms 1099-OID. The false forms 1099-OID would name as entities paying income to the taxpayer and making federal tax withholdings the banks, credit card companies, mortgage companies and other lenders, and contracting companies that the taxpayer supplied defendant. The false forms 1099-OID listed as Original Issue Discount income paid to the taxpayer from these entities the taxpayer's disbursements from his checking account, the taxpayer's credit card charges, the taxpayer's mortgages and loans, and the taxpayer's contractual obligations, respectively, that the taxpayer supplied defendant. On defendant's own fraudulent 2008 U.S. Individual Income Tax Return, defendant listed the U.S. Treasury as the payer on the false forms 1099-OID attached to his return.

(e) To induce taxpayers to allow him to prepare income tax returns for them, defendant also told taxpayers that his method of preparing income tax returns involved "off-balance sheet accounting"; that his method of preparing returns was being used by major corporations and was available also to individuals, though most individuals were unaware they could use it; that taxpayers should file a total of

three tax returns using his method, including an income tax return for the current income tax year and amended income tax returns for the preceding two income tax years, in order to increase the chances of obtaining a refund; that defendant had connections high in the IRS and in the U.S. Department of Justice that had approved of defendant's method of preparing tax returns; and that few people in the IRS were aware of or understood defendant's method of preparing income tax returns.

(f) Defendant fraudulently placed on the false income tax returns he prepared for others the words "self-prepared" in the boxes meant for the signature of the paid income tax return preparer. Defendant, in fact, charged the taxpayers substantial fees to prepare the false income tax returns and also collected from the taxpayers a large percentage, approximately 35%, of all income tax refunds the taxpayers received. Defendant gave some taxpayers the false excuse that he could not sign the returns as a paid preparer because he was not an accountant. Defendant on several of the income tax filings wrote the words "Hurricane Ike" in red ink on the tax return or on the envelope, even though the taxpayer in question had not been affected by Hurricane Ike.

(g) Defendant told the taxpayers to provide him with any correspondence they received from the IRS, including correspondence indicating that the IRS

determined that the returns that Bruce prepared were frivolous. Defendant often filed, or had the taxpayers file, frivolous responses to the IRS correspondence.

(h) Defendant caused one taxpayer to file a frivolous lawsuit that named as a defendant, among others, an IRS civil collection officer who had taken steps in collecting amounts wrongly refunded on one of the fraudulent Amended U.S. Individual Income Tax Returns prepared by defendant. Defendant also prepared for that taxpayer a fraudulent 2009 U.S. Income Tax Return for Trusts and Estates for a trust allegedly related to that taxpayer. This trust tax return falsely claimed a large, fraudulent income tax refund of alleged withholdings of income from Original Issue Discount and falsely named the IRS civil collection officer as the fiduciary of the alleged trust. Defendant also told other taxpayers to create trusts in order to avoid or to stymie IRS civil collection activity.

2. The acts committed in furtherance of the endeavor to corruptly obstruct and impede the due administration of the Internal Revenue Code include, but are not limited to, the following:

(a) On or about November 24, 2008, defendant applied to the IRS to be given a Filing Information Returns Electronically Account (FIRE Account).

(b) Defendant filed with the IRS through his FIRE Account numerous fraudulent IRS forms 1099-OID corresponding to many of the fraudulent IRS forms

1099-OID that defendant attached to the income tax returns and to the amended income tax returns described in counts One through Twenty-Six above.

(c) On or about the dates listed in the above chart for counts One through Twenty-Six, defendant filed or caused to be filed the income tax returns and amended income tax returns claiming the false, fictitious, and fraudulent income tax refunds listed in the chart. The United States incorporates in this paragraph the above chart for counts One through Twenty-Six as though the chart had been copied here *in extenso*.

(d) On or about February 11, 2010, defendant caused an individual taxpayer to file in the United States District Court for the Northern District of Texas a frivolous civil lawsuit, naming among the defendants the Internal Revenue Commissioner, an IRS civil collection officer taking civil collection steps against a taxpayer, and an IRS Area Manager. The civil collection officer named in the frivolous lawsuit had been attempting to recover a fraudulent refund issued to the taxpayer on a fraudulent Amended U.S. Individual Income Tax Return prepared by defendant claiming a refund of alleged withholdings of income from Original Issue Discount.

(e) On or about February 18, 2010, defendant filed or caused to be filed a fraudulent 2009 United States Income Tax Return for Estates and Trusts for a trust

allegedly related to the individual taxpayer described in 2 (d) above. On the trust return, defendant named the IRS civil collection officer alluded to in 2 (d) above as the fiduciary of the trust. The trust return claimed a fraudulent income tax refund of \$351,856 of alleged withholdings of income from Original Issue Discount.


In violation of Title 26, United States Code, Section 7212(a), and Title 18, United States Code, Section 2.

A TRUE BILL;

Original signature on File

Foreperson of the Grand Jury

Kenneth Magidson
United States Attorney
Southern District of Texas



Charles J. Escher
Assistant U.S. Attorney